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EMPLOYMENT UP, UNEMPLOYMENT DOWN

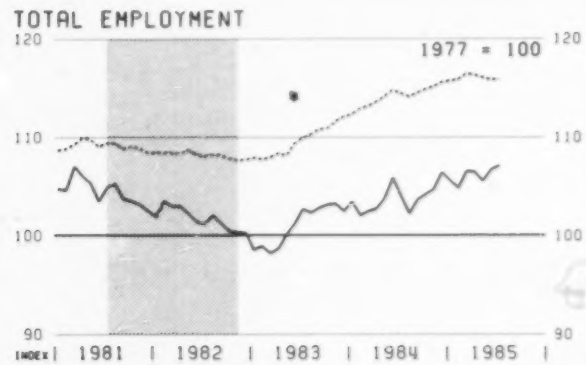
The Pennsylvania economy continued its moderate expansion in July despite little help from manufacturing. Resident employment rose to record levels in both adjusted and unadjusted terms, increasing a seasonally adjusted 0.3 percent. This is the second consecutive monthly advance, leaving the average level of employment during the first seven months of this year 2.5 percent higher than last year. Nationally, employment rose a slightly higher 0.5 percent in July.

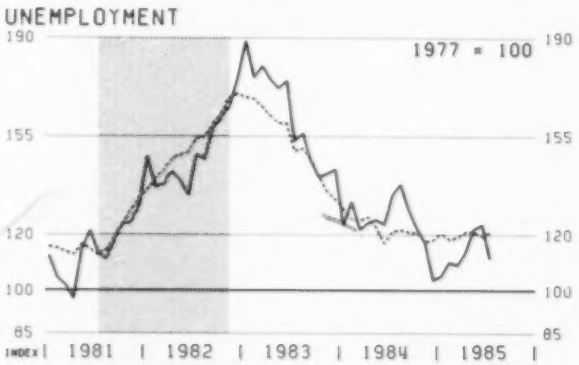
Resident unemployment fell a seasonally adjusted 9.6 percent to 446.9 thousand, its lowest level since March. The same improvement did not occur nationally where the number of people counted as unemployed rose 1.1 percent. Despite the sluggishness which beset the State's economy during the first half of the year, the average level of unemployment during the first seven months of 1985 was still 10 percent less than a year ago. The unemployment rate fell 1 percentage point to 7.8 percent, the largest monthly drop since a similar decline last December.

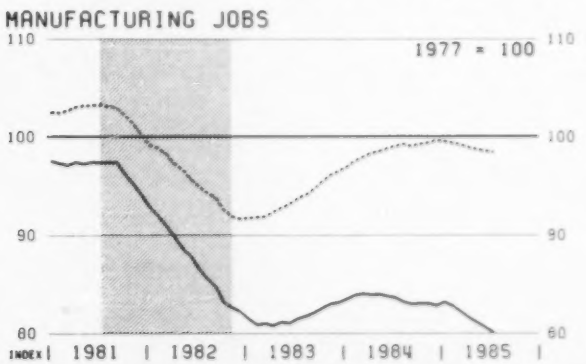
The decline in the unadjusted level of establishment-related nonagricultural employment at both the State and national levels was less than expected resulting in identical 0.3 percent seasonally adjusted advances, the third straight monthly increase in Pennsylvania. Seasonally adjusted nonfarm employment in the State is at its highest level since 1981 and its January-July average is 1.8 percent higher than a year ago.

All of the establishment-related employment growth in Pennsylvania occurred in the nonmanufacturing sector where the seasonally adjusted level of employment reached an all-time high in rising 0.5 percent. This year's seven-month average is 3.3 percent higher than last year's. Nearly all of July's gains came in the service-producing group where employment rose 0.6 percent, the third straight monthly increase. Employment in Pennsylvania mines fell 2.6 percent while the number of construction jobs rose slightly. Nationally, nonmanufacturing employment grew 0.4 percent.

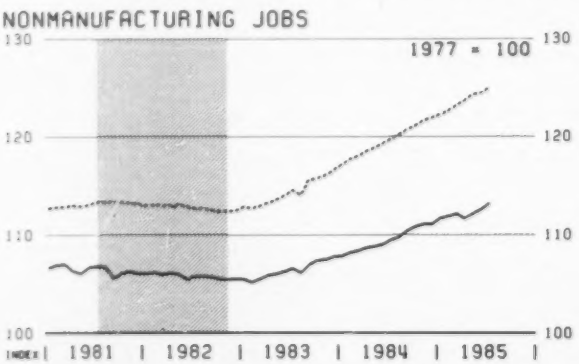
Manufacturing employment fell 0.7 percent on a seasonally adjusted basis in Pennsylvania and by 0.1 percent nationally. July is the sixth consecutive month in







SHADED AREA REPRESENTS PERIOD OF NATIONAL RECESSION



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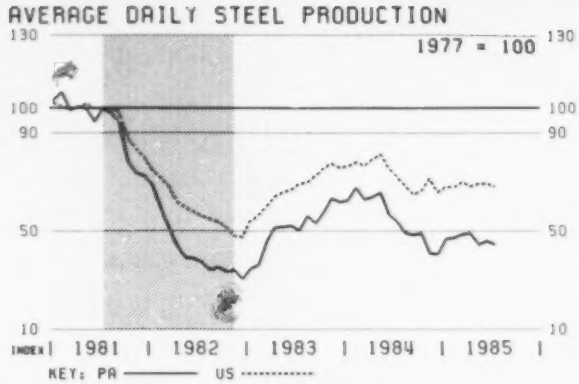
PENNSYLVANIA BUSINESS SURVEY

College of Business Administration The Pennsylvania State University **September 1985**

which factory employment declined in the State. So far this year, the average manufacturing employment level has been 2.6 percent below last year's. The bulk of July job losses were in the durable goods industries where employment fell a seasonally adjusted 0.9 percent and 28 thousand jobs have been lost since December. Employment in the nondurable goods subsector, where 10 thousand jobs have been lost since December, fell 0.1 percent in July.

There were few positive signs in manufacturing. In addition to the loss of jobs, total hours worked and total payrolls declined in July and were below year-ago levels. Steel production fell in both adjusted and unadjusted terms with average daily output falling a seasonally adjusted 3.1 percent. Pennsylvania accounted for 12.9 percent of total U.S. steel production in July, down from 1984's average market share of 15.7 percent. One encouraging sign was electric power sales to industrial customers, a short-run indicator of industrial production. Sales rose a seasonally adjusted 1.7 percent following June's decline, but were down considerably from year-ago levels.

As a result of manufacturing's difficulties, the



Pennsylvania index of coincident indicators, which tends to rise and fall with the business cycle and is heavily influenced by developments in the manufacturing sector, fell 0.3 percentage point to 87.4 on the heels of June's 0.6 point increase. Two of the three components of the index, manufacturing employment and real earnings by the State's production workers, fell. The third component, resident employment, rose.

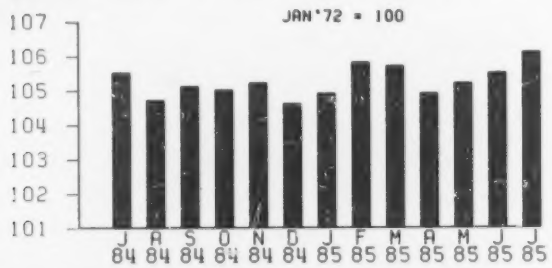
The index of leading indicators, which tends to signal

Economic Activity in Pennsylvania	UNADJUSTED DATA 1985 June	1985 July	1984 July	SEASONALLY ADJUSTED DATA 1985 June	1985 July	1984 July	SEASONALLY ADJUSTED INDEXES (1977 = 100) 1985 June	1985 July	1984 July
Pennsylvania Industries									
All nonagricultural industries									
No. of wage and salaried jobs (thous.)[1]	4,760*	4,736	4,666	4,709*	4,721	4,648	103.1*	103.4	101.8
Nonmanufacturing									
No. of wage and salaried jobs (thous.)	3,664*	3,658	3,537	3,628*	3,647	3,526	112.5*	113.2	109.4
Manufacturing									
No. of wage and salaried jobs (thous.)	1,093*	1,075	1,123	1,081*	1,074	1,122	80.6*	80.0	83.6
Ave. wkly. hrs. worked by prod. workers	40.0	40.0	40.1	39.8	40.0	40.2	100.8	101.3	101.7
Total wkly. person-hours worked (mils.)	29.9*	29.2	31.0	29.4*	29.3	31.2	76.5*	76.4	81.4
Total wkly. payroll (mil. dols.)	285.8*	279.6	287.8	281.8*	281.6	290.2	125.4*	125.3	129.1
Steel production (thous. tons)	1,002*	907	1,101	n.a.	n.a.	n.a.	45.9	44.5	53.9
Industrial electric power sales (mil. kwh)	3,495	3,469	3,658	3,426	3,483	3,651	92.8	94.3	98.8
Mining									
Anthracite coal (thous. net tons)	308	301	384	343	302	401	70.1	61.9	82.1
Bituminous coal (thous. net tons)	5,023	n.a.	6,436†	5,170	n.a.	6,458†	73.3	n.a.	91.6†
Construction contracts awarded (mil. dols.)									
Total	728.7	694.6	645.9*	551.9	592.4	542.8*	171.5	184.1	168.7
Residential building	330.2	345.2	265.3*	252.2	291.1	221.8*	179.2	206.8	157.6*
Other building	157.4	208.5	292.6*	145.8	152.4	229.5*	134.3	140.5	211.6*
Nonbuilding (utilities and public works)	241.1	140.9	88.0*	153.9	148.9	91.5*	212.4	205.4	126.3*
Employment of Pennsylvania Residents									
Employed, no. of persons (thous.)	5,168	5,288	5,139	5,129	5,145	5,000	106.7	107.1	104.1
Unemployed									
No. of persons (thous.)	517	450	540	494	447	537	123.3	111.5	133.9
Rate (percentage of labor force)	9.1	7.8	9.5						
Rate, seasonally adjusted				8.8	7.8	9.5			
Civilian labor force, no. of persons (thous.)	5,685	5,738	5,679	5,623	5,592	5,537	108.0	107.4	106.4
Initial claims for unemployment benefits	105,741	137,398	129,681	119,417	124,152	120,639	83.4	86.7	84.3

Consumer Prices, all items	Urban Indexes (1967 = 100) 1985 June	1985 July	1984 July	Percentage Change Month Ago	Year Ago
U.S. city average	322.3	322.8	311.7	+0.2	+3.6
Philadelphia	314.2	315.5	301.4	+0.4	+4.7
Pittsburgh	325.9	n.a.	319.7†	n.a.	+1.9
Northeast PA	n.a.	306.6	297.3	n.a.	+3.1

NOTES: Data on employment, payrolls and hours have been revised to first quarter 1984 benchmarks.
[1] Total includes workers on strike. * = figure revised † = figure for June 1984 n.a. = data not available
SOURCES AND DEFINITIONS OF DATA ARE AVAILABLE ON REQUEST.

PENNSYLVANIA COMPOSITE INDEX OF LEADING INDICATORS



future changes in the business cycle, rose 0.5 percentage point in July to 106.1 on the strength of a seasonally adjusted 0.2 hour increase in the average factory workweek to 40 hours per week and a 15.4 percent increase in the seasonally adjusted value of residential construction permits. The third component of the index, initial claims for unemployment insurance, rose a seasonally adjusted 4 percent, perhaps signalling a worsening unemployment situation.

Elsewhere on the construction front, the value of nonresidential building contracts rose a seasonally adjusted 4.5 percent and nonbuilding permits fell an adjusted 3.2 percent. The net result was a 7.3 percent rise in the value of total construction contracts awarded. During the first seven months of this year, total contract values were 8.3 percent higher than a year earlier.

Inflation, as measured by the rise in the consumer price index, appears to be under control in both the nation and the three metropolitan areas in Pennsylvania for which data is collected. A major issue concerns the future behavior of the Federal Reserve. To reduce inflationary fears, the Fed could tighten its hold on credit thereby raising interest rates. This would reduce money supply growth and depress economic activity. On the other hand, the central bank could maintain its current hold on credit or ease up even more. This could bring about a reduction in interest rates leading to even faster money supply growth. However, excessive money supply growth could "overheat" the economy causing inflation and high interest rates. Recent evidence leads many economists to beleive that the Fed will keep its hold on credit the same, allowing the money supply to continue to grow at its recent healthy rates.

— William D. Anderson

MODEST RISE IN FIRST QUARTER INCOME

Pennsylvania personal income rose to $151.8 billion in the first quarter of 1985. Personal income is the total income received by individuals that is available for consumption, saving, and payment of personal taxes. It is made up of net earnings; dividends, interest, and rental income (DIR); and transfer payments.

First quarter's level was 1.4 percent greater than in 1984:IVQ compared to the 1.5 percent gain which occurred in the nation. The advance is higher than the previous quarter's 0.9 percent rise and reverses a three-quarter trend in which the rate of change was on the decline. Personal income grew 6.7 percent in Pennsylvania over the 1984:IQ-1985:IQ period compared to the nation's 7.7 percent rise.

All three components of Pennsylvania personal income rose in the first quarter. However, first quarter growth accounted for a disproportionate share of the year-to-year advance. Of the 5.4 percent increase in the net earnings of Pennsylvania residents over the 1984:IQ-1985:IQ period, less than one-fifth occurred in the latest quarter. A very small portion of the annual change in the DIR category occurred in the period while two-thirds of the rise in transfer payments originated in the first quarter. These trends illustrate the sluggishness in the Pennsylvania economy which set in late last year and continued through into this year.

Nationally, the growth in two of the three components, net earnings and DIR, was higher than in Pennsylvania during the first quarter. The advance in transfer payments was lower in the U.S. Over the year, the growth in all three components was higher in the nation.

The gains in personal income represent "real" gains in purchasing power. Prices, as measured by the implicit price deflator for personal consumption expenditures, rose just 0.8 percent during the quarter and 3 percent over the year.

Within Pennsylvania's nonfarm sector, the only industry showing a decline in income during the first quarter was durable goods manufacturing where earnings fell 0.7 percent. This decline reflects a slowdown in domestic manufacturing activity that is partially the result of intense foreign competition. The only industry with lower annual growth in earnings than durable goods manufacturing was mining. Still, mining had a strong first quarter this year in that income rose 7.7 percent, the highest advance for all industries. Other big gainers

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Personal Income by Major Source, Seasonally Adjusted at Annual Rates — Pennsylvania and the United States

	Pennsylvania			United States		
	1985 I (mil. dols.)	Percentage Change Quarter Ago	Year Ago	1985 I (mil. dols.)	Percentage Change Quarter Ago	Year Ago
Labor and proprietors income by place of work	103,855	1.4	5.6	2,233,270	1.7	7.1
By type						
Wage and salary disbursements	86,031	1.4	5.1	1,872,297	1.9	7.3
Other labor income	10,748	1.5	7.1	206,161	1.9	9.7
Proprietors income	7,076	0.8	10.6	154,812	-1.0	2.3
By industry						
Farm	838	-16.5	23.2	33,191	-15.0	-18.1
Nonfarm	103,017	1.6	5.5	2,200,079	2.0	7.6
Private	89,126	1.7	5.9	1,832,852	1.9	7.8
Ag. serv., for., fish., and other	285	5.2	12.2	9,408	4.8	7.1
Mining	1,431	7.7	1.1	36,779	0.3	8.1
Construction	5,441	5.6	15.9	123,295	4.8	10.9
Manufacturing	29,439	-0.2	2.0	528,491	1.2	5.8
Nondurable goods	10,833	0.7	3.3	190,375	0.9	3.9
Durable goods	18,606	-0.7	1.3	338,117	1.4	7.0
Transportation and public utilities	7,825	2.1	5.6	168,962	1.0	6.2
Wholesale trade	6,538	2.5	10.2	150,591	1.8	9.1
Retail trade	9,240	1.0	4.5	210,577	1.9	6.8
Finance, insurance, and real estate	6,210	1.5	6.9	145,702	1.8	7.6
Services	22,719	2.9	8.3	459,047	2.5	10.0
Government	13,891	0.9	3.3	367,227	2.4	6.8
Federal, civilian	3,572	2.0	3.9	81,180	3.3	5.0
Federal, military	665	1.8	7.1	38,615	3.8	4.7
State and local	9,653	0.4	2.8	247,433	1.9	7.7
Total personal income	151,843	1.4	6.7	3,129,096	1.5	7.7
Nonfarm personal income	151,005	1.5	6.6	3,095,905	1.7	8.0
Net labor and proprietors income[1]	96,472	1.0	5.4	2,086,702	1.3	6.7
Dividends, interest and rent	28,844	0.4	11.6	602,790	0.4	11.6
Transfer payments	26,527	4.3	6.4	439,604	4.2	6.9

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System, July 1985.
[1]Total earnings by place of work less personal contributions for social insurance and plus an adjustment for residence.

were the agricultural services and construction industries which, along with wholesale trade, also saw the largest income advances on an annual basis.

Nationally, all nonfarm industries had income gains in the first quarter. Although quarterly growth in nonfarm income was 2 percent in the U.S. and 1.7 percent in Pennsylvania, there were six industries which realized stronger advances in the State compared to the nation: agricultural services, mining, construction, transportation and public utilities, wholesale trade, and services. Over the course of a year, only four nonfarm industries in Pennsylvania, one of which was the military, realized stronger income growth than did the nation.

— William D. Anderson

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